

MINUTES

MONTANA SENATE 57th LEGISLATURE - REGULAR SESSION COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB DEPRATU**, on April 4, 2001 at 8:00 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:

Sen. Bob DePratu, Chairman (R)
Sen. Alvin Ellis Jr., Vice Chairman (R)
Sen. John C. Bohlinger (R)
Sen. Mack Cole (R)
Sen. Pete Ekegren (R)
Sen. Jon Ellingson (D)
Sen. Bill Glaser (R)
Sen. Dan Harrington (D)
Sen. Emily Stonington (D)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Linda Ashworth, Committee Secretary
Transcribed by Deb Thompson

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: HJR 2, 3/15/01; HB 600,
3/30/01; HB 121, 3/30/01; HB
248, 3/30/01

Executive Action: HB 248 Pass 9-0 as amended

HEARING ON HJR 2

Sponsor: REP. ROGER SOMERVILLE, HD 78, Kalispell

Proponents: None

Opponents: None

Informational Witness: Terry Johnson, Legislative Fiscal Division; Kurt Alme, Department of Revenue; Shane Byrne, Department of Revenue; Jim Gillette representing the Legislative Auditor's Office

Opening Statement by Sponsor:

REP. ROGER SOMERVILLE opened discussion on HJR 2. He instructed the committee that the 2002-03 biennium balance was currently \$2.406 billion dollars. He distributed a cross reference chart for the revenue estimates for the 2003 biennium, **EXHIBIT (tas76a01)**. He explained the chart cross reference was the information from HJR 2 into Volume 2 of the Revenue Estimate Book.

Page two referred to the attached amendments that would compare House Taxation action with House floor action and eventually Senate Taxation action. The pie chart on page 3 referred to the breakout of the collection of Montana revenue. The chart showed that individual income tax was 48.6% of the revenue. He pointed out the revenue description was standardized throughout the book. He noted the income tax statewide had been growing about 5% a year. Capital gains reflected a 30% increase per year, though this would not project out at this level two years from now, due to the stock market situation. He explained corporate income tax was a minus because last biennium there had been a one time Montana Power Company sale of capital gains.

Investment earnings in the trust accounts that pay into the General Fund had a small decrease. The investment pool was getting smaller. There had been some impact on the Coal Trust Fund from last Session. The Coal Trust is now frozen at \$554 million dollars. All the other monies that are going into that trust are going into the T-Sep Fund and the Reserved Water Rights Fund. Therefore, that fund did not increase this year.

He described all other revenues which decreased. There was a large Tobacco Tax Settlement payment in 2001 and there was also a big chunk of FEMA money which caused those numbers in that biennium to increase. **{Tape : 1; Side : A; Approx. Time Counter : 0 - 10}**

He referred to page 4, table 1, which gave the General Fund estimate revenues. Table 2 has the non General Fund revenue. HJR 2 amendments, page 2 in the packet, detailed the revenue estimate, which was presented to the House Taxation Committee. There was some concern with the decrease in the Highway funds.

The diesel tax had gone down. The original estimate had been based on an abnormally high year in 2000. Everyone filled their tanks with fuel because of the Y2K problem. The Department of Transportation saw an increase in the number of taxes they took in, but some of those tanks are probably still full today. This resulted in a big drop in the amount of diesel being sold over the next year. That was adjusted. They had to take out another \$2.8 million dollars of tax revenue that they will not get across this biennium, since they used the year 2000 as an estimating year. The gasoline tax was a lot higher as they estimated \$15 million over what they originally estimated. The total of \$18 million dollars for the next biennium will be missed by the State Highway Special Revenue Fund.

Other General Fund items: If you add the Tobacco Trust earnings- the voter passed Referendum now created a trust account which holds 40% of that Tobacco Tax Trust. The 2003 biennium will receive \$3.25 million dollars in interest. The TSE, the regional water system earnings fund, a new program established by the last Legislature, has \$2.3 million more funds going into government programs. He noted Glacier County was added to the state assumed counties which had welfare mills. There are 13 counties that have their own mills for welfare. Previously when this estimate was put together, only 12 counties were included. That mill creates a \$6.09 million dollars.

New revenues for the General Fund was discussed. He noted the House Taxation Committee looked at the Individual Income Tax audits and discovered an error in moving from the old system to the point system, which started back in 1999. In comparing the audit, additional dollars would actually be collected in this biennium by \$2.6 million dollars. That money was added in to the revenue estimate.

The Corporate audits discovered an underestimate of collection this year by \$4.5 million dollars. The House Taxation Committee increased that by \$3.5 million dollars in additional funds generated by audits of the Corporate Income Tax. **{Tape : 1; Side : A; Approx. Time Counter : 10 - 17}**

The Telecommunications Excise Tax, which was a great discussion during the Revenue and Taxation Interim Committee, in audit collections came up over that estimate. The figure may be a \$7.5 million dollar increase.

The Public Institutions reimbursements included the State Hospital which was being built and finally certified in November. Therefore, it started receiving federal funds. There was an increase in the average daily population at Boulder, which allowed for an increase in federal money that goes back into the

General Fund program. The House floor discussed the Park Trust interest, and increased that by about \$200 thousand dollars.

{Tape : 1; Side : A; Approx. Time Counter : 17 - 18.9}

He pointed out the estimate process is an estimate. The best information is used for the Legislature to estimate as to what funds will come in. He noted President Bush's tax reform or refund plan was purported to return \$1.6 billion to the public. This potential may put \$5 million dollars in additional income tax into Montana during the next biennium. This is not reflected in these numbers. The impact to the Department of Revenue (DOR) corporate audit staff if they do not get the three additional auditors was discussed. Big numbers are returned when corporate audits are done. He noted another amendment that had been put on the bill on the House floor. This would require DOR to report monthly to the Legislative Fiscal Division. This may require additional staff.

He noted that DOR had discovered some employers had not been paying all of their withholding income tax to the state of Montana to the tune of \$9-11 million dollars per year. This could increase by \$20 million dollars to the budget. He asked **Terry Johnson** from the Legislative Fiscal Division to discuss the new found money and some proposed amendments. ***{Tape : 1; Side : A; Approx. Time Counter : 18.9 - 23.6}***

Proponents' Testimony: None

Opponents' Testimony: None

Informational Testimony: **Terry Johnson** from the Legislative Fiscal Division discussed the proposed amendments. He distributed handouts. The first amendment was a recommendation dealing with Wildfire Reimbursements. **EXHIBIT(tas76a02)** The state is anticipating receiving FEMA reimbursements from the federal government. Based on information that has been built into the budget regarding supplemental requests and the expenditures of those funds, the proposed amendment would bring the revenue estimates into consistency with the supplemental appropriation. The chart on the bottom of Exhibit 2 indicates \$31.2 million dollars of FEMA reimbursements in 2001 and \$10.4 in fiscal year 2002. The recommendation is \$28.8 and \$14.5 in fiscal years 2001, and fiscal year 2002, which is an increase overall of about \$1.8 million dollars. This represents the anticipated level of FEMA reimbursements that will be deposited into the General Fund. **SENATOR STONINGTON** asked why there was a difference in the figures. **Mr. Johnson** replied in the area of wildfire costs that was experienced last summer, there was an incredible amount of information that went into determining how

much the costs were actually related to the fire fighting season. One of the key components was how much money would be reimbursed from the federal government. The information last Fall that was presented to the Revenue and Taxation Committee was based on the Department of Natural Resources best estimate at that point in time. Since that time there has been further information in terms of cost of fires, such as billing information. Based on that new information, the anticipated level of revenues had been revised. Even though this is an increase of revenues, that money goes back out as costs to reimburse the fire fighting efforts.

{Tape : 1; Side : A; Approx. Time Counter : 23.6 - 29}

SENATOR COLE asked if this was the final figure. **Mr. Johnson** said there would always be some adjustments for quite some time.

SENATOR ELLINGSON asked if this figure included the 2002 fire season that was upcoming. **Mr. Johnson** replied this only applied to last year's fire season. There is nothing built into these reimbursements for any future fires. He noted this was how the Department of Natural Resources worked with the federal government in getting the documentation on all the bills.

EXHIBIT(tas76a03) {Tape : 1; Side : A; Approx. Time Counter : 29 - 30.5}

Mr. Johnson said the second recommendation had to do with the U.S. Mineral Royalty payments off of federal lands. The state received 50% of those revenues. He indicated the table reflected the adjustments that were being recommended. **EXHIBIT(tas76a04)** A \$5 million dollar anticipated audit collection was contained in HJR 2. There was a signed agreement with DOR that would indicate audit collection would be slightly higher by about \$1 million dollars. **EXHIBIT(tas76a05) {Tape : 1; Side : A; Approx. Time Counter : 30.5 - 32.9}**

Mr. Johnson explained that all the recommendations for HJR 2 were based on current law activity. Any bill that is pending before the Legislature would not be incorporated into HJR 2. Once the Session adjourns, the underlying base law revenue estimates are incorporated into a revised HJR 2, based on the revised fiscal notes. **{Tape : 1; Side : B; Approx. Time Counter : 0 - 1.4}**

Director Kurt Alme explained the Telecommunications Excise Tax. **EXHIBIT(tas76a06) EXHIBIT(tas76a07)** He described the status of collections. There had been concerns that the collections had not matched the revenue estimate. Since that time, there had been significant resources directed towards additional compliance. He pointed out the additional compliance was listed in the table on exhibit 6. There had been several types of compliance identified, making up the total \$3.9 million dollar

figure. There was \$300 thousand dollars of original installation charges, \$1.3 million dollars of 50/81 end user revenue charges, \$700 thousand dollars of additional revenue anticipated through companies identified that mistakenly used the old telephone license tax rate instead of the telecommunications excise tax rate. Then an additional \$1.6 million dollars of anticipated revenue identified by looking at gross revenues reported to the Public Service Commission, FCC and previous tax returns which was extrapolated by using the 3.75% rate currently in effect. When those numbers are totaled you have \$3.9 million dollars of additional compliance, which is the number shown in 2001.

SENATOR ELLINGSON asked about projected compliance over the next few years dealing with the same taxpayers. He asked why this was not going into the base. **Mr. Alme** replied the compliance figures were broken out for the benefit of the Legislature. He expected these taxpayers would voluntarily pay and that figure would be built into the base. He noted the original installation charge was being disputed by the industry as well as the 50/81 end user revenue. **SENATOR ELLINGSON** pointed out this contested revenue could not be ultimately determined. **Mr. Alme** replied the amount contested was \$1.6 million dollars of the \$3.9 million each year. It is not known if this was contested formally by any member of industry. *{Tape : 1; Side : B; Approx. Time Counter : 1.4 - 16}*

SENATOR GLASER asked what the comfort level was, based on the track record. **Mr. Johnson** clarified that the information as of March 25th looked at collections in 2001 and the information indicated we have received \$8.7 million dollars in telecommunications tax through the end of March. If you made no further adjustments and extrapolated that through the rest of the year, you would have \$17.4 million dollars for the entire year. He stressed that was based on year to date trends through March. The department from now to the end of the fiscal year, in terms of dealing with compliance issues, could make that number higher. It is not known what the department could put in place between now and the end of the fiscal year. **SENATOR GLASER** noted that was three months away.

Shane Byrne, Department of Revenue, discussed the Contractor's Gross Receipts Tax. **EXHIBIT (tas76a08)** He distributed amendments. **EXHIBIT (tas76a09)** He explained the year to date collections indicated an estimate shortage. The reasons were taxes collected before credits, which was gross receipts from the 1% tax on publicly funded contracts. Federal funds from highway contracts and other contracts were described. He felt other contracts presented the problem mostly. Other reasons for the revenue decrease in HJR 2 was credits and refunds. There were three pieces of legislation that impacted this particular revenue

source. One was SB 200, which decreased the personal property tax from 6% to 3%. The second was SB 260 which decreased the light vehicle tax from 2% to 1.4% beginning January 1, 2000. The third was HB 540 which passed in the November election which got rid of the light vehicle tax plus the new car sales tax. The problem is for 2001 is the refunds and credits being claimed are coming from tax year 1999. **{Tape : 1; Side : B; Approx. Time Counter : 12.7 - 27.7}**

Mr. Johnson explained the amendment changed the preliminary ending fund balance to \$176,000,000. **EXHIBIT(tas76a10)** He explained how the ending fund balance was reached. **{Tape : 1; Side : B; Approx. Time Counter : 27.7 - 32}**

Jim Gillette representing the Legislative Auditor's Office, described the process to arrive at the ending fund balance. He noted there were many issues that were involved. The major difference was an adjustment in the Coal Tax income that was not transferred to the General Fund, of \$4.5 million dollars. There were 30-40 other differences that were involved in the audit work. **SENATOR ELLIS** asked how this \$4.5 million dollars could be overlooked in the Coal Tax Trust. **Mr. Gillette** replied the volume of dollars that flowed through the system did not take much to overlook it. At the beginning, there was an accrual that existed that was reversed that allowed for a flow-through of that revenue. That reversal was done in error. The result of that was to mask \$4.5 million dollars collected in the trust that was never distributed during fiscal year 2000 to the General Fund. A minor accounting error at the beginning of the year caused that amount to be masked. **SENATOR ELLINGSON** requested further explanation before voting on this bill. **Mr. Johnson** said this figure had been taken into account. The Legislative Fiscal Division and the Executive had formulated the estimates for interest earnings off the permanent trust account; the actual interest collections reported in the accounting system were not used. Instead the actual shares in the portfolio trust pool were used to forecast the revenues. The actual collections were not looked at to forecast forward; instead the amount of shares in the pool were used which included changes in the interest rate and that is how they come up with the estimate for 2001, 2002, and 2003. **{Tape : 2; Side : A; Approx. Time Counter : 0 - 12.6}**

Mr. Alme explained the Income Tax estimates. He distributed two amendments. One was for the option one that was listed on the document and the other amendment was for option two. **EXHIBIT(tas76a11) EXHIBIT(tas76a12)** He said additional revenue had been detected which was included. The background had to do with points. As related to the withholding arena, the purpose of points was to send out bills every quarter. Every quarter, if

employers withheld too little or for unemployment insurance purposes paid in too little - a statement would be generated and sent out to these employers so the amounts could be properly paid and corrected. Because of difficulties of points generating statements of accounts, one of the core problems, the department has not been able to get these statements sent out. The department has also had difficulty computer generating employer experience ratings. This has been done on a manual basis but not the breadth needed given the volume of taxpayers. In the last few weeks, as part of the blitz effort, there has been a breakthrough. The department was able to generate the employer experience ratings by March 31. The quarterly reports, MTQ's, had been sent out. Now the department could send out statements of account. They have been able to quantify the amounts outstanding for withholdings, based over the last five quarters. The department believes there is \$11.2 million dollars of outstanding liability in the withholding arena. **{Tape : 2; Side : A; Approx. Time Counter : 8.1 - 18}**

SENATOR COLE asked if the problems had been worked out in the point system. **Mr. Alme** replied there had been a range of problems that had not been solved. He believed the issue of employer withholding had been solved to the point of allowing statements to be sent. **SENATOR STONINGTON** asked for clarification. **Mr. Alme** said a statement of account was the bill that was sent out. Historically, employers used to file with the Department of Labor for unemployment insurance and they used to file a withholding report with the Department of Revenue, on a quarterly basis. This gets back to the reason why points were created years ago. As part of an initiative from the federal government to try to make things easier for employers, the idea was to combine those two withholding elements and combine them into a single report. This was moved into the Department of Revenue and being integrated into the computer system and the idea expanded into points. Employers send in their payments quarterly and the insurance portion is taken out and sent to the Department of Labor. He explained the statements of account for the past five quarters had been mailed out manually. There were amounts of withholding that were not collected, though the exact amounts were not known. The key issue with points was the inability by the department system to breakout principal, versus penalty and interest. Now, with the new system, the amount can be quantified. Those amounts had been backlogged in previous quarters and had not been taken into account in the revenue estimating process. **SENATOR STONINGTON** asked if **Mr. Alme** felt the \$11.2 million dollars in additional withholding money would be collected between now and June. **Mr. Alme** replied those statements had not gone out yet but were in process. It was not anticipated that 100% of that figure could be collected. The

department felt 80% would be collected and not all of that would be this year.

SENATOR ELLINGSON asked how withholding had an impact on the overall estimates. **Mr. Alme** explained the withholding process. The employer was not remitting the amount that they were withholding from the paycheck. The reason for the shortfall was varied. One reason is the employer was remitting too little, they may not have the money to pay, make a mistake or file late. There are various reasons. However, the amount of withholding shortfall on a monthly basis was consistent with what has occurred historically. **SENATOR ELLINGSON** noted that it appeared this was another compliance issue. **Mr. Alme** said the department was going back to 1999 and thought 80% of the figure could be collected.

SENATOR ELLIS asked how it was determined that an employer had under reported. **Mr. Don Hoffman**, head of the compliance division, explained this had already been stated on a report and was underpaid based on that report. That is different than doing an audit. As the director has pointed out they are underpaid for a reason, either they did not understand it, made a miscalculation on the form or did not have the money and didn't pay it. This has occurred over five quarters. **{Tape : 2; Side : A; Approx. Time Counter : 20 - 30}**

SENATOR GLASER asked if there had been a pattern of suspect preparers. **Mr. Alme** replied there were certain employers who were chronic as they had a cash flow problem. **{Tape : 2; Side : B; Approx. Time Counter : 0 - 2.5}**

Mr. Johnson described the options which reflected additional revenues that would be generated. He explained the second option. The information in option two were estimates that were in HJR 2. This option took into account the withholding tax payments as described previously by **Mr. Alme**. The magnitude of the anticipated revenue for those five quarters was \$11.2 million dollars. The 80% collection figure was applied which produced \$8.560 million dollars. There would be a split depending on what year that revenue came in, which ended up being a 60/40% split, 60% for 2001 and 40% for 2002. That highlights option two which was characterized as the low-end estimate. Option one gets more complicated. The forecasting method used various options for assumptions for the underlying income components that were relevant to income taxes. Based on those assumptions, the two offices share an assimilation model which applied to growth rates to the latest tax returns available, 1999. Once the growth rates are applied to the 1999 data, the estimates for tax liability are obtained for 2000-2003. That indicated an aggregate form of tax

liability. The anticipated growth rate can be determined from this information. This is on a calendar year basis so the process of converting to a fiscal year collection effort becomes a problem. The estimates for HJR 2 used the year 2000 figures as the base, the \$516 million dollars, and from that the growth factors were applied to arrive at an estimate for following years. The issue for the year 2000 indicated there should have been \$6.6 million dollars more collected. That figure comes from only the three quarters, not the five quarters mentioned by **Mr. Alme**. Two of those quarters come from fiscal year 2001 and the other three quarters are relevant to fiscal year 2000. If those statements of account had been going out on a timely basis and that revenue was coming in at the 80% level - instead of the accounting records showing \$516 million dollars - it would have been showing \$522 million dollars. If you take the growth factors that come out of the simulation models and apply it to that new base it would come out to \$6.6 million dollars each year into the forecast period. This is contained in option one and the \$6.6 million dollars had been included, which had not been received yet for fiscal year 2000. The total amount of the adjustment would be \$29.4 million dollars. **{Tape : 2; Side : B; Approx. Time Counter : 2.5 - 10.9}**

SENATOR ELLINGSON asked if this was realistic. **Mr. Johnson** replied the key factor was if those statements of account had been going out on a regular basis and the fiscal year 2000 collections had come in at the \$522 million, the forecasts would be accurate. The reservation is whether the 80% factor was correct. He felt this number was probably conservative.

SENATOR HARRINGTON pointed out the problems of companies closing down such as MRI, Stone Container, Asarco and others. There did not seem to be an effect as to individual income tax collections. **Mr. Johnson** discussed the assumptions that had been built into the revenue estimates. Both offices, LFD and the Executive Office had taken into account the significant slowdown in the economy. If you go back a couple of years and look at wage and salary growth in Montana, which is a key component to income tax collections, there was 6-7% annual growth in previous years. The estimates contained in the bill presently are based on a 4.5% growth rate in the wage and salary component. That represented a significant slowdown in that aspect of the individual income tax collected, or 65% of total income taxed. **SENATOR HARRINGTON** noted a windfall at this time seemed odd. **Mr. Johnson** replied there was an issue related to the point system where five quarters worth of withholding information had been identified. This was where the statement of account reports were not going out to the employers. That is a unique situation which is different from past bienniums. He noted the Senate in the

previous Session added back \$15 million dollars to the revenue estimate in the first year. **{Tape : 2; Side : B; Approx. Time Counter : 10.9 - 20}**

Judy Paynter noted one of the reasons there were two options. You can do what is theoretical if you are using a model and a formula. Option one is the optimist estimate. If you want to be more conservative, the money will come in though there is some uncertainty. Things are changing, such as interest rates going down. This \$11 million dollars will be coming in though it has not been built into the base. That is the option two, which the department feels is more practical. **{Tape : 2; Side : B; Approx. Time Counter : 20 - 23.8}**

Director Alme said compliance had been discussed. He wanted to put the committee on notice about upcoming actions. It is dangerous to discuss ongoing audits or litigation with taxpayers and there are obligations with confidentiality. These are weighed as to the need for accurate information. He said there were a few audits where negotiations would be completed in the next few months. He said there would be a potential General Fund revenue between \$7-14 million dollars. Revenue estimates could not be included as no signed agreements had been reached.

SENATOR STONINGTON pointed out two reporting requirements that had been provided to the Legislative Fiscal Division and to the Revenue and Taxation Interim Committee. This would include the progress on points and the reporting of the audits. **Mr. Alme** said he understood the need to provide this information on a timely basis and intended to do so. He suggested an amendment to that provision which would allow the department to supply the information, however protect issues of confidentiality to certain taxpayers. **{Tape : 2; Side : B; Approx. Time Counter : 23.8 - 28}**

Jeff Miller from the Department of Revenue, described the need for the amendment. **EXHIBIT (tas76a13)** He said it was important to supply the information on a quarterly basis, rather than monthly. Audit collections are the most significant thing they could report. Assessments were not quite as meaningful. One of the assessment tools used for a taxpayer who is non compliant is an estimate of their liability. That would tend to significantly overstate liabilities in terms of assessments. It serves as a good tool to get a persons attention and get them to file a return. Therefore, the assessment information is a bit misleading but the audit collection is relevant. He stressed the importance of confidentiality. He noted the difficulty reporting amended returns. These were not a specific tax type in the wage base area, which was now in the points one environment. It was

technically a correction of current information. **{Tape : 3; Side : A; Approx. Time Counter : 0 - 7}**

SENATOR STONINGTON asked about the telecommunications tax. **Ms. Paynter** said they would be willing to add this tax to the list.

SENATOR ELLINGSON requested that **REPRESENTATIVE DAVE WANZENRIED**, HD 68, Missoula, explain some information. He described the language presented was for the purpose of reducing individual income tax audit collections. He felt these were too high yet it appeared the audit collections had been trending higher. The number in the bill now was \$29 million dollars. The amendment would have brought it back to \$21 million dollars. This portrayed an increase by about \$9 million dollars in audit collections which go against the trends. The Department of Revenue assured the committee and defended the higher level of audit collections. He said it was important to keep in mind the point issue. The department did not have the ability presently to separate audit collections from income tax collections. They are doing this manually but if there was more dependence on audit collections then this information needed to be supplied to the Legislative Fiscal Division. He felt there would be a dramatic effect on the ending fund balance. He said there had been a blitz on points under way for the past six months and there was continued problems. The reason that the Comprehensive Annual Financial Report was late was because of two systems. It is Sabre's and points. The Audit Committee discussed this at length. Unless there were dramatic changes made, it would be late again. That was important because the bond rating would suffer. It would have an adverse affect. The department needs to be accountable with the ability to measure this issue routinely during the next two years. He said he did not have any objections if the committee wanted to narrow the tax types identified in the amendment. He felt \$50 thousand dollars was a fair threshold and he could not see anything in the amendment that could betray the confidentiality of taxpayers. **{Tape : 3; Side : A; Approx. Time Counter : 7 - 15.1}**

Director Alme said it was the department's intent to supply all information in a timely manner. However, he was concerned that the amendment was overly broad. They would appreciate the opportunity to provide information that would not be as burdensome to the department. He stressed that the information would eventually be generated. The LFD would then have access to it daily. Now this data must be compiled manually. This takes resources and audit staff. **{Tape : 3; Side : A; Approx. Time Counter : 15.1 - 18.1}**

SENATOR GLASER asked when the problem was discovered. **Mr. Alme** replied that January he was aware of the problem. This problem was monitored and a time frame was determined to notify employers. He said he did not realize this would have an impact on the revenue estimates. *{Tape : 3; Side : A; Approx. Time Counter : 18.1 - 25.4}*

Closing by Sponsor: **REPRESENTATIVE SOMERVILLE** closed.

HEARING ON HOUSE BILL 600

Sponsor: **REPRESENTATIVE SYLVIA BOOKOUT-REINEKE**, HD 71, presented the bill. She discussed the need for small businesses to use generators when the power was out or during peak times. She said it would be helpful for these businesses to have a break on the 3% business equipment tax. She described the amendment.

EXHIBIT (tas76a14)

Proponents: None

Opponents: None

Informational Testimony: None

Questions from Committee Members and Responses: **SENATOR COLE** asked about size of generators. **REP. BOOKOUT-REINEKE** discussed the idea behind the bill.

Closing by Sponsor: **REP. BOOKOUT-REINEKE** closed. **SENATOR ELLIS** would carry the bill.

HEARING ON HOUSE BILL 121

Sponsor: **REPRESENTATIVE DOUG MOOD**, HD 58, presented the bill.

Proponents: Linda McCulloch, State Superintendent of Public Instruction; Loren Frazier, SAM; Lance Melton, MSBA; Erik Feaver, MEA-MFT; Dave Puyear, MREA

Opponents: None

Opening Statement by Sponsor: **REPRESENTATIVE MOOD** described coordinating language with other bills.

Proponents' Testimony: Linda McCulloch, Superintendent of Public Instruction, presented written testimony. **EXHIBIT (tas76a15)**

Loran Frazier, SAM, urged the committee support the bill.

Lance Melton, MSBA, supported the bill. He said there were other bills that had some funding but not all were successful going through the process. He felt money should be put in the base, especially when considering declining enrollment. **{Tape : 3; Side : A; Approx. Time Counter : 22 - 25.1}**

Erik Feaver, MEA-MFT, spoke in support of the bill. He noted the money was there, especially when considering the revenue estimate process. **{Tape : 3; Side : A; Approx. Time Counter : 25.1 - 26.3}**

Dave Puyear, MREA, said they strongly supported the bill. He felt this was a "stop gap" measure. Many schools were being lost and there would be a higher cost to rebuild the system. These kinds of investments would stop teachers from leaving the state.

Opponents' Testimony: None

Informational Testimony: None

Questions from Committee Members and Responses: **SENATOR BOHLINGER** asked about other funding sources. **Ms. McCulloch** described the various bills pending in the Legislature. **{Tape : 3; Side : A; Approx. Time Counter : 26.3 - 31.7}**

Closing by Sponsor: **REPRESENTATIVE MOOD** closed. He shared a letter from the Swan Valley School that would be experiencing declining enrollment. The formula, which derived from the late 80's, did not work very well in declining enrollments. He recommended an Interim study for education funding. **{Tape : 4; Side : A; Approx. Time Counter : 4.1 - 6}**

HEARING ON HOUSE BILL 248

Sponsor: **REPRESENTATIVE JOE TROPILA**, HD 47, Great Falls

Proponents: **John Bloomquist**, Montana Stockgrowers; **Webb Brown**, Montana Chamber of Commerce; **Erik Feaver**, MEA-MFT

Opponents: None

Opening Statement by Sponsor: **REPRESENTATIVE TROPILA** presented the bill. He described the bill as an Interim Tax Reform Study Committee. He said there had never been a sound tax policy

developed in the state of Montana. He felt the tax laws were very disjointed.

Proponents' Testimony: **John Bloomquist**, Montana Stockgrowers Association, supported the bill. He said the convention of the Graingrowers and Stockgrowers all talked about economic development, including value added efforts. These discussions always returned to the tax policy of the state. Infrastructure was needed to have value added products.

Webb Brown, Montana Chamber of Commerce, supported the bill. He noted it was important to revisit past tax studies and incorporate recent changes in the Montana economy. He urged support for the bill. **{Tape : 4; Side : A; Approx. Time Counter : 6 - 14.1}**

Erik Feaver, MEA-MFT, supported the bill. He felt a study of the tax policy was in order.

Opponents' Testimony: None

Questions from Committee Members and Responses: **SENATOR**

STONINGTON asked about tax expenditures or loopholes and that did not seem to have any attention. **REPRESENTATIVE TROPILA** said this could be studied in the committee. He described a flat tax as a percentage of the federal tax which he presented previously. He had asked the Department of Revenue what the tax neutrality figure would be and they replied it was 11%. However, that was incorrect.

SENATOR COLE pointed out that past studies had been done but the implementation portion was never accomplished. **REPRESENTATIVE TROPILA** said that is why the composition of the board would be different. He felt the universities had economists that would qualify to be on this committee. Also, there were CPA's who would be a contributing factor. He described a New Mexico "think tank" and other entities willing to help. He felt legislators should not be the majority on the committee. **{Tape : 4; Side : A; Approx. Time Counter : 14.1 - 18.3}**

SENATOR ELLIS noted there was a past committee, three Sessions ago, that studied the tax issues. **REPRESENTATIVE TROPILA** replied that the composition on the committee could be changed but the point was to get some of the brightest contributors for this study. **{Tape : 4; Side : A; Approx. Time Counter : 18.3 - 19.3}**

Closing by Sponsor: **REPRESENTATIVE TROPILA** closed. He distributed a copy of an article from the **Tribune**.

EXHIBIT(tas76a16) He read two quotes. {Tape : 4; Side : A;
Approx. Time Counter : 19.3 - 21.6}

EXECUTIVE ACTION ON HOUSE BILL 248

SENATOR EKEGREN MOVED DO PASS. **SENATOR STONINGTON** added a minor amendment to examine tax expenditures to assess the ongoing merit or each. The question was called on the amendment. The amendment was **ADOPTED** unanimously.

The question was called on the bill as amended. The motion **PASSED** unanimously.

ADJOURNMENT

Adjournment: 11:35 A.M.

SEN. BOB DEPRATU, Chairman

DEB THOMPSON, Secretary

BD/DT

EXHIBIT (tas76aad)